

KNOXVILLE COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2008

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Knoxville Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2007 election)		
Mike Helle	President	2007
Scott Chambers	Vice President	2008
Jeff Wallace	Board Member	2007
Dennis Goad	Board Member	2008
Mike Husted	Board Member	2009
Board of Education (After September 2007 election)		
Mike Husted	President	2009
Jeff Wallace	Vice President	2011
Scott Chambers	Board Member	2008
Dennis Goad	Board Member	2008
Tim McDonald	Board Member	2011
School Officials		
Dr. Randy Flack	Superintendent	2008
Craig Mobley	Business Manager and District Secretary/Treasurer	2008
Drew Bracken	Attorney	Indefinite

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Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Knoxville Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Knoxville Community School District, Knoxville, Iowa as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Knoxville Community School District at June 30, 2008, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 27, 2009 on our consideration of Knoxville Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 37 through 38 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Knoxville Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2007 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 11, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

February 27, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

Knoxville Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$15,335,471 in fiscal 2007 to \$15,988,635 in fiscal 2008, while General Fund expenditures increased from \$15,734,390 in fiscal 2007 to \$16,776,131 in fiscal 2008. This resulted in a decrease in the District's General Fund balance from \$1,773,732 in fiscal 2007 to a balance of \$986,236 in fiscal 2008, a 44.40% decrease from the prior year.
- The increase in General Fund revenues was primarily attributable to an increase in state sources in fiscal 2008. The increase in expenditures was due primarily to an increase in the instruction function.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Knoxville Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Knoxville Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Knoxville Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Knoxville Community School District Annual Financial Report

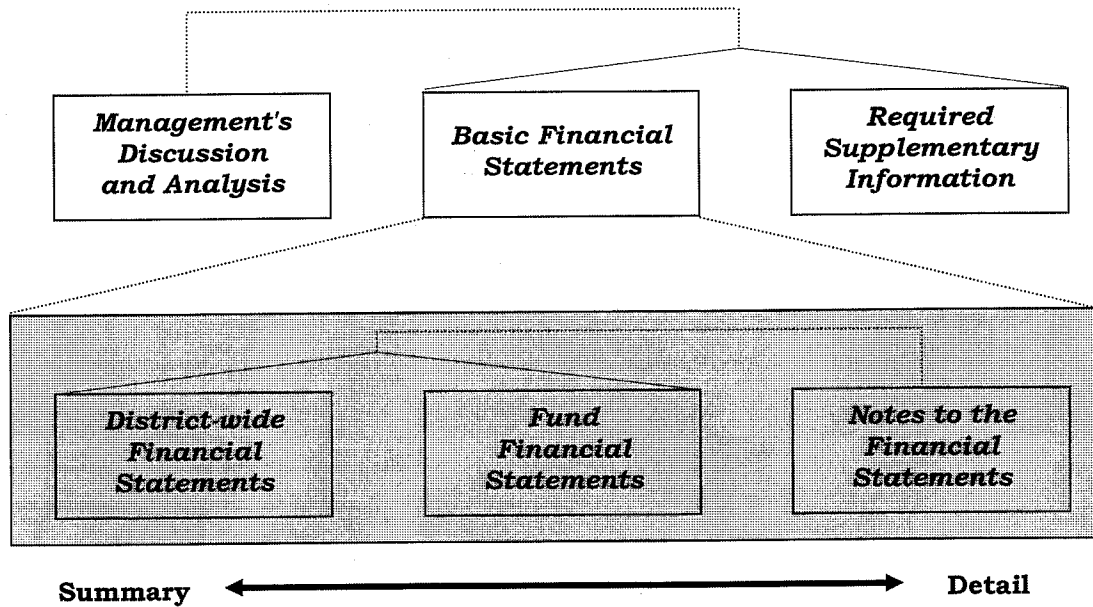


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-Wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund. The District's internal service funds, another type of proprietary fund, are the same as its governmental activities but provide more detail and additional information, such as cash flows. The District has two internal service funds: Self-funded Health Insurance and Self-funded Dental Insurance.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include the Private-Purpose Trust Fund and Agency Fund.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Fund – These are funds for which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for Marion County Empowerment and Flex Spending accounts and related expenditures.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2008 compared to June 30, 2007.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Current and other assets	\$ 11,689,097	10,696,565	304,463	281,928	11,993,560	10,978,493	9.25%
Capital assets	15,005,822	14,954,437	222,754	223,153	15,228,576	15,177,590	0.34%
Total assets	26,694,919	25,651,002	527,217	505,081	27,222,136	26,156,083	4.08%
Long-term obligations	8,957,983	10,415,122	0	8,141	8,957,983	10,423,263	-14.06%
Other liabilities	8,635,472	6,664,727	72,391	63,609	8,707,863	6,728,336	29.42%
Total liabilities	17,593,455	17,079,849	72,391	71,750	17,665,846	17,151,599	3.00%
Net assets:							
Invested in capital assets, net of related debt	6,865,822	5,614,437	222,754	223,153	7,088,576	5,837,590	21.43%
Restricted	1,815,069	2,142,711	0	0	1,815,069	2,142,711	-15.29%
Unrestricted	420,573	814,005	232,072	210,178	652,645	1,024,183	-36.28%
Total net assets	\$ 9,101,464	8,571,153	454,826	433,331	9,556,290	9,004,484	6.13%

The District's combined net assets increased by 6.13%, or \$551,806, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased \$327,642, or 15.29%, over the prior year. This decrease in restricted net assets was a result of the District's decrease in the Capital Projects Fund balance.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$371,538, or 36.28%. This decrease in unrestricted net assets was a result of the District's decrease in the General Fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2008 compared to June 30, 2007.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2008	2007	2008	2007	2008	2007	2007-08
Revenues and Transfers:							
Program revenues:							
Charges for services	\$ 968,830	1,023,856	414,648	384,624	1,383,478	1,408,480	-1.78%
Operating grants and contributions and restricted interest	2,168,087	1,943,336	366,899	345,943	2,534,986	2,289,279	10.73%
General revenues:							
Property tax	4,837,114	4,778,919	0	0	4,837,114	4,778,919	1.22%
Income surtax	462,830	406,000	0	0	462,830	406,000	14.00%
Local option sales and services tax	1,142,735	1,188,601	0	0	1,142,735	1,188,601	-3.86%
Unrestricted state grants	9,333,254	8,997,980	0	0	9,333,254	8,997,980	3.73%
Other	218,445	297,840	4,765	15,262	223,210	313,102	-28.71%
Transfers	0	(2,067)	0	0	0	(2,067)	100.00%
Total revenues and transfers	19,131,295	18,634,465	786,312	745,829	19,917,607	19,380,294	2.77%
Program expenses:							
Governmental activities:							
Instructional	11,710,116	10,897,381	0	0	11,710,116	10,897,381	7.46%
Support services	5,186,052	3,874,545	875	756	5,186,927	3,875,301	33.85%
Non-instructional programs	0	0	763,942	702,084	763,942	702,084	8.81%
Other expenses	1,704,816	1,335,149	0	0	1,704,816	1,335,149	27.69%
Total expenses	18,600,984	16,107,075	764,817	702,840	19,365,801	16,809,915	15.20%
Changes in net assets	530,311	2,527,390	21,495	42,989	551,806	2,570,379	-78.53%
Beginning net assets	8,571,153	6,043,763	433,331	390,342	9,004,484	6,434,105	39.95%
Ending net assets	\$ 9,101,464	8,571,153	454,826	433,331	9,556,290	9,004,484	6.13%

In fiscal 2008, property tax, income surtax, local option sales and services tax and unrestricted state grants account for 82.46% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.39% of the revenue from business type activities.

The District's total revenues were approximately \$19.92 million of which \$19.13 million was for governmental activities and \$0.79 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 2.77% increase in revenues and a 15.20% increase in expenses. The increase in expenses is due primarily to the abnormally low expenses occurred in fiscal 2007; which was a result of the reclassification and capitalization of the completed construction projects during that year.

Governmental Activities

Revenues for governmental activities were \$19,131,295 and expenses were \$18,600,984.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2008	2007	Change 2007-08	2008	2007	Change 2007-08
Instruction	\$ 11,710,116	10,897,381	7.46%	9,252,157	8,644,103	7.03%
Support services	5,186,052	3,874,545	33.85%	5,170,136	3,793,016	36.31%
Other expenses	1,704,816	1,335,149	27.69%	1,041,774	702,764	48.24%
Totals	\$ 18,600,984	16,107,075	15.48%	15,464,067	13,139,883	17.69%

- The cost financed by users of the District's programs was \$968,830.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$2,168,087.
- The net cost of governmental activities was financed with \$4,837,114 in property tax, \$462,830 in income surtax, \$1,142,735 in local option sales and services tax, \$9,333,254 in unrestricted state grants, \$115,642 in interest income and \$102,803 in miscellaneous sources.

Business-Type Activities

Revenues of the District's business-type activities were \$786,312 and expenses were \$764,817. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Knoxville Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$2,645,840, below last year's ending fund balance of \$3,608,535. The primary reason for the decrease in combined fund balance in fiscal 2008 is due to the decrease in the General Fund balance.

Governmental Fund Highlights

- The District's General Fund financial position is the product of many factors. Growth during the year in state grants resulted in an increase in revenues. However, expenditures exceeded revenues ensuring the decrease in the District's carryover fund balance which will be used in the future to meet its financial obligations during the next year.
- The General Fund balance decreased from \$1,773,732 to \$986,236, due in part to the increase in negotiated salary and benefits settlement.
- The Capital Projects Fund balance decreased from \$612,898 in fiscal 2007 to \$272,681 in fiscal 2008. The District completed and capitalized the Goal Alternative School Door Project and Middle School Phone System installation construction projects that were started in the previous year.

-
- The Debt Service Fund balance increased from \$1,244,466 in fiscal 2007 to \$1,261,759 in fiscal 2008. The District is funding a debt sinking fund reserve required from the issuance of \$5,010,000 in local option sales and services tax revenue bonds.

Proprietary Fund Highlights

The Proprietary Fund net assets increased from \$433,331 at June 30, 2007 to \$454,826 at June 30, 2008, representing an increase of 4.96%.

BUDGETARY HIGHLIGHTS

Over the course of the year, Knoxville Community School District amended its annual budget one time to reflect additional expenditures in the Capital Project Fund.

The District's revenues were \$520,952 less than budgeted revenues, a variance of 2.56%. The most significant variance resulted from the District receiving less in local sources than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, the District had invested \$15,228,576, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 0.34% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$586,332.

The original cost of the District's capital assets was \$23,441,647. Governmental funds account for \$22,856,110 with the remainder of \$585,537 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$382,877 at June 30, 2008, compared to \$63,771 reported at June 30, 2007. This increase resulted from the work on the High School EIFS Replacement, Ken Locke Stadium Restoration Project, Randy Wilson Track Concrete Project and East Elementary Roofing Project.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Land	\$ 63,966	63,966	0	0	63,966	63,966	0.00%
Construction in progress	382,877	63,771	0	0	382,877	63,771	500.39%
Buildings	13,994,390	14,251,045	0	0	13,994,390	14,251,045	-1.80%
Machinery and equipment	564,589	575,655	222,754	223,153	787,343	798,808	-1.44%
Total	\$ 15,005,822	14,954,437	222,754	223,153	15,228,576	15,177,590	0.34%

Long-Term Debt

At June 30, 2008, the District had \$8,957,983 in general obligation and other long-term debt outstanding. This represents a decrease of 13.99% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding general obligation bonds of \$3,680,000 at June 30, 2008.

The District had outstanding revenue bonds of \$4,460,000 at June 30, 2008.

The District had total outstanding early retirement payable from the Special Revenue, Management Fund of \$817,983 at June 30, 2008.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2008	2007	2007-08
General obligation bonds	\$ 3,680,000	4,330,000	-15.01%
Revenue bonds	4,460,000	5,010,000	-10.98%
Early Retirement	817,983	1,075,122	-23.92%
Totals	\$ 8,957,983	10,415,122	-13.99%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Although the District has experienced fluctuating enrollment for a few years, the District expects enrollment to decline over the next few years.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Craig Mobley, District Treasurer and Business Manager, Knoxville Community School District, 309 W Main, Knoxville, Iowa, 50138.

BASIC FINANCIAL STATEMENTS

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:			
U.S. Treasury Securities	\$ 1,151,842	0	1,151,842
ISCAP(Note 4)	1,362,011	0	1,362,011
Other	2,989,493	277,970	3,267,463
Receivables:			
Property tax:			
Delinquent	125,987	0	125,987
Succeeding year	5,282,329	0	5,282,329
Income surtax	433,194	0	433,194
Accounts	30,055	3,243	33,298
Accrued ISCAP interest(Note 4)	516	0	516
Due from other governments	313,670	0	313,670
Inventories	0	23,250	23,250
Capital assets, net of accumulated depreciation(Note 5)	15,005,822	222,754	15,228,576
TOTAL ASSETS	26,694,919	527,217	27,222,136
LIABILITIES			
Accounts payable	136,568	9,177	145,745
ISCAP warrants payable(Note 4)	1,351,000	0	1,351,000
ISCAP interest payable(Note 4)	518	0	518
ISCAP premiums payable	23,170	0	23,170
Salaries and benefits payable	1,749,165	49,799	1,798,964
Interest payable	92,624	0	92,624
Deferred revenue:			
Succeeding year property tax	5,282,329	0	5,282,329
Other	98	0	98
Unearned revenue	0	13,415	13,415
Long-term liabilities(Note 6):			
Portion due within one year:			
General obligation bonds payable	680,000	0	680,000
Revenue bonds payable	570,000	0	570,000
Early retirement payable	266,249	0	266,249
Portion due after one year:			
General obligation bonds payable	3,000,000	0	3,000,000
Revenue bonds payable	3,890,000	0	3,890,000
Early retirement payable	551,734	0	551,734
TOTAL LIABILITIES	17,593,455	72,391	17,665,846
NET ASSETS			
Invested in capital assets, net of related debt	6,865,822	222,754	7,088,576
Restricted for:			
Debt service	1,261,759	0	1,261,759
Capital facility construction	210,084	0	210,084
Talented and gifted	229,466	0	229,466
Salary improvement program	496	0	496
Professional development	4,428	0	4,428
Market factor	13,226	0	13,226
Capital projects	62,597	0	62,597
Physical plant and equipment levy	7,439	0	7,439
Other special revenue purposes	25,574	0	25,574
Unrestricted	420,573	232,072	652,645
TOTAL NET ASSETS	\$ 9,101,464	454,826	9,556,290

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities
Functions/Programs:					
Governmental activities:					
Instruction:					
Regular instruction	\$ 7,184,055	402,652	1,347,740	(5,433,663)	0
Special instruction	2,245,269	10,787	142,634	(2,091,848)	0
Other instruction	2,280,792	554,146	0	(1,726,646)	0
	11,710,116	967,585	1,490,374	(9,252,157)	0
Support services:					
Student services	424,276	0	0	(424,276)	0
Instructional staff services	415,513	0	0	(415,513)	0
Administration services	2,121,977	0	0	(2,121,977)	0
Operation and maintenance of plant services	1,549,908	0	5,000	(1,544,908)	0
Transportation services	674,378	1,245	9,671	(663,462)	0
	5,186,052	1,245	14,671	(5,170,136)	0
Other expenditures:					
Facilities and acquisitions	276,801	0	0	(276,801)	0
Long-term debt interest	340,134	0	0	(340,134)	0
AEA flowthrough	663,042	0	663,042	0	0
Depreciation(unallocated) *	424,839	0	0	(424,839)	0
	1,704,816	0	663,042	(1,041,774)	0
Total governmental activities	18,600,984	968,830	2,168,087	(15,464,067)	0
Business-Type activities:					
Support services:					
Administration services	875	0	0	0	(875)
Non-instructional programs:					
Nutrition services	763,942	414,648	366,899	0	17,605
Total business-type activities	764,817	414,648	366,899	0	16,730
Total	\$ 19,365,801	1,383,478	2,534,986	(15,464,067)	16,730
General Revenues:					
Property tax for:					
General purposes			\$ 4,001,799	0	4,001,799
Debt Service			835,315	0	835,315
Income surtax			462,830	0	462,830
Local option sales and services tax			1,142,735	0	1,142,735
Unrestricted state grants			9,333,254	0	9,333,254
Unrestricted investment earnings			115,642	4,765	120,407
Other general revenues			102,803	0	102,803
Total general revenues			15,994,378	4,765	15,999,143
Changes in net assets			530,311	21,495	551,806
Net assets beginning of year			8,571,153	433,331	9,004,484
Net assets end of year			\$ 9,101,464	454,826	9,556,290

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	General	Debt Service	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments:				
U.S. Treasury Securities	\$ 0	1,151,842	0	1,151,842
ISCAP(Note 4)	1,362,011	0	0	1,362,011
Other	2,639,176	88,796	158,025	2,885,997
Receivables:				
Property tax:				
Delinquent	92,294	21,121	12,572	125,987
Succeeding year	3,913,362	836,550	532,417	5,282,329
Income surtax	433,194	0	0	433,194
Accounts	29,592	0	0	29,592
Accrued ISCAP interest (Note 4)	516	0	0	516
Due from other governments	85,271	0	228,399	313,670
TOTAL ASSETS	\$ 8,555,416	2,098,309	931,413	11,585,138
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 98,673	0	1,151	99,824
ISCAP warrants payable (Note 4)	1,351,000	0	0	1,351,000
ISCAP interest payable (Note 4)	518	0	0	518
ISCAP premiums payable	23,170	0	0	23,170
Salaries and benefits payable	1,749,165	0	0	1,749,165
Deferred revenue:				
Succeeding year property tax	3,913,362	836,550	532,417	5,282,329
Income surtax	433,194	0	0	433,194
Other	98	0	0	98
Total liabilities	7,569,180	836,550	533,568	8,939,298
Fund balances:				
Reserved for:				
Debt service	0	1,261,759	0	1,261,759
Capital facility construction	0	0	210,084	210,084
Talented and gifted	229,466	0	0	229,466
Salary improvement program	496	0	0	496
Professional development	4,428	0	0	4,428
Market factor	13,226	0	0	13,226
Unreserved:				
General	738,620	0	0	738,620
Capital projects	0	0	62,597	62,597
Management levy	0	0	92,151	92,151
Physical plant and equipment levy	0	0	7,439	7,439
Other special revenue purposes	0	0	25,574	25,574
Total fund balances	986,236	1,261,759	397,845	2,645,840
TOTAL LIABILITIES AND FUND BALANCES	\$ 8,555,416	2,098,309	931,413	11,585,138

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2008

Total fund balances of governmental funds (page 16)	\$ 2,645,840
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	15,005,822
Blending of the Internal Service Funds to be reflected on an entity-wide basis.	67,215
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.	433,194
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(92,624)
Long-term liabilities, including bonds payable and early retirement payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(8,957,983)
Net assets of governmental activites (page 14)	<u>\$ 9,101,464</u>

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008

	General	Debt Service	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 3,916,171	835,315	1,618,994	6,370,480
Tuition	352,774	0	0	352,774
Other	201,477	35,072	581,080	817,629
Intermediate sources	22,141	0	0	22,141
State sources	10,996,970	0	0	10,996,970
Federal sources	499,102	0	0	499,102
Total revenues	15,988,635	870,387	2,200,074	19,059,096
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	6,932,854	0	341,986	7,274,840
Special instruction	2,282,564	0	0	2,282,564
Other instruction	1,740,814	0	539,978	2,280,792
	10,956,232	0	881,964	11,838,196
Support services:				
Student services	433,321	0	0	433,321
Instructional staff services	415,359	0	0	415,359
Administration services	2,126,949	3,554	276	2,130,779
Operation and maintenance of plant services	1,581,508	0	0	1,581,508
Transportation services	599,720	0	44,483	644,203
	5,156,857	3,554	44,759	5,205,170
Other expenditures:				
Facilities acquisitions	0	0	764,091	764,091
Long-term debt:				
Principal	0	1,200,000	0	1,200,000
Interest and fiscal charges	0	351,292	0	351,292
AEA flowthrough	663,042	0	0	663,042
	663,042	1,551,292	764,091	2,978,425
Total expenditures	16,776,131	1,554,846	1,690,814	20,021,791
Excess(deficiency) of revenues over(under) expenditures	(787,496)	(684,459)	509,260	(962,695)
Other financing sources(uses):				
Transfer in	0	701,752	0	701,752
Transfer out	0	0	(701,752)	(701,752)
Total other financing sources(uses)	0	701,752	(701,752)	0
Net change in fund balances	(787,496)	17,293	(192,492)	(962,695)
Fund balance beginning of year	1,773,732	1,244,466	590,337	3,608,535
Fund balance end of year	\$ 986,236	1,261,759	397,845	2,645,840

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2008

Net change in fund balances - total governmental funds (page 18) \$ (962,695)

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 613,788	
Depreciation expense	<u>(562,403)</u>	51,385

Net change in Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. (98,875)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 1,200,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 11,158

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 72,199

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. 257,139

Early retirement

Changes in net assets of governmental activities (page 15) \$ 530,311

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2008

	Business-Type Activities	
	Enterprise: Fund	Governmental Activities:
	School Nutrition	Internal Service Fund
ASSETS		
Cash and pooled investments	\$ 277,970	103,496
Accounts receivable	3,243	463
Inventories	23,250	0
Capital assets, net of accumulated depreciation (Note 5)	222,754	0
TOTAL ASSETS	527,217	103,959
LIABILITIES		
Accounts payable	9,177	36,744
Salaries and benefits payable	49,799	0
Unearned revenue	13,415	0
TOTAL LIABILITIES	72,391	36,744
NET ASSETS		
Invested in capital assets	222,754	0
Unrestricted	232,072	67,215
TOTAL NET ASSETS	\$ 454,826	67,215

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2008

	Business-Type Activites:	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service Fund
OPERATING REVENUE:		
Local sources:		
Charges for services	\$ 414,648	2,279,718
TOTAL OPERATING REVENUES	414,648	2,279,718
OPERATING EXPENSES:		
Support services:		
Administration services:		
Benefits	0	2,378,593
Services	875	0
	875	2,378,593
Non-instructional programs:		
Food service operations:		
Salaries	245,580	0
Benefits	95,322	0
Services	12,560	0
Supplies	386,551	0
Depreciation	23,929	0
	763,942	0
TOTAL OPERATING EXPENSES	764,817	2,378,593
OPERATING LOSS	(350,169)	(98,875)
NON-OPERATING REVENUES:		
State sources	9,562	0
Federal sources	357,337	0
Interest on investments	4,765	0
TOTAL NON-OPERATING REVENUES	371,664	0
Change in net assets	21,495	(98,875)
Net assets beginning of year	433,331	166,090
Net assets end of year	\$ 454,826	67,215

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2008

	Business-Type Activities:	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 412,179	0
Cash received from miscellaneous	500	2,279,255
Cash payments to employees for services	(341,026)	0
Cash payments to suppliers for goods or services	(348,683)	(2,369,085)
Net cash used in operating activities	(277,030)	(89,830)
Cash flows from non-capital financing activities:		
State grants received	9,562	0
Federal grants received	309,321	0
Net cash provided by non-capital financing activities	318,883	0
Cash flows from capital and related financing activities:		
Capital lease payments	(8,141)	0
Purchase of capital assets	(23,530)	0
Net cash used in capital and related financing activities	(31,671)	0
Cash flows from investing activities:		
Interest on investments	4,765	0
Net cash provided by investing activities	4,765	0
Net increase(decrease) in cash and cash equivalents	14,947	(89,830)
Cash and cash equivalents at beginning of year	263,023	193,326
Cash and cash equivalents at end of year	\$ 277,970	103,496
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (350,169)	(98,875)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Commodities consumed	48,016	0
Depreciation	23,929	0
Increase in inventories	(5,398)	0
Increase in accounts receivable	(2,190)	(463)
Increase in accounts payable	8,685	9,508
Decrease in salaries and benefits payable	(124)	0
Increase in unearned revenue	221	0
Net cash used in operating activities	\$ (277,030)	(89,830)

RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR
END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE
SHEET:

Current assets:		
Cash and pooled investments	\$ 277,970	103,496

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2008, the District received Federal commodities valued at \$48,016.

During the year ended June 30, 2008, the District paid interest of \$403 as part of the 2004 Isuzu Truck capital lease.

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2008

	Private Purpose Trust Scholarship Fund	Agency Fund
ASSETS		
Cash and pooled investments	\$ 2,420	210,030
Total assets	<u>2,420</u>	<u>210,030</u>
LIABILITIES		
Accounts payable	0	17,880
Due to other groups	0	192,150
Total liabilities	<u>0</u>	<u>210,030</u>
NET ASSETS		
Reserved for scholarships	<u>\$ 2,420</u>	<u>0</u>

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2008

	Private Purpose Trust Scholarship Fund
Additions:	
Local sources:	
Interest income	\$ 553
Total additions	<u>553</u>
Deductions:	
Non-instructional programs:	
Scholarships awarded	<u>103</u>
Total deductions	<u>103</u>
Change in net assets	450
Net assets beginning of year	<u>1,970</u>
Net assets end of year	<u><u>\$ 2,420</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

(1) **Summary of Significant Accounting Policies**

The Knoxville Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served includes the City of Knoxville, Iowa, and the predominate agricultural territory in Marion County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Knoxville Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Knoxville Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Marion County Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference

reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's long-term debt.

The District reports the following proprietary funds:

The District's proprietary funds are the School Nutrition Fund and the Internal Service Fund. The Nutrition fund is used to account for the food service operations of the District. The Internal Service Fund is used to account for the self-funded insurance plan of the District. The Internal Service Fund is charged back to the Governmental Funds and shown combined in the Statement of Net Assets and the Statement of Activities.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary fund includes the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of result of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the

government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2007.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 2,000
Buildings	2,000
Land improvements	2,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,000

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balance - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2008 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint

investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2008, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 2,512,992</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk. The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The U.S. Treasury Securities are classified as Category 1, which means the investments are insured or registered or the securities are held by the District or its agent in the District's name.

Securities are stated at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

At June 30, 2008, the District had investments in U.S. Treasury Securities as follows:

	<u>Fair Value</u>
U.S. Treasury Securities	<u>\$ 1,151,842</u>

(3) Transfers

The detail of transfers for the year ended June 30, 2008 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	<u>\$ 701,752</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of

School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2008 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued		Warrants Payable	Accrued Interest Payable
				Interest Receivable			
2008-09A	6/26/08	6/25/09	\$ 1,362,011	516		1,351,000	518

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts, and must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. No ISCAP advance activity in the General Fund was noted for the year ended June 30, 2008.

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2008-09A	3.500%	3.469%

(5) Capital Assets

Capital assets activity for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 562,007	23,530	0	585,537
Less accumulated depreciation	338,854	23,929	0	362,783
Business-type activities capital assets, net	\$ 223,153	(399)	0	222,754

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 63,966	0	0	63,966
Construction in progress	63,771	333,575	14,469	382,877
Total capital assets not being depreciated	127,737	333,575	14,469	446,843
Capital assets being depreciated:				
Buildings	19,386,098	168,184	0	19,554,282
Machinery and equipment	2,803,637	126,498	75,150	2,854,985
Total capital assets being depreciated	22,189,735	294,682	75,150	22,409,267
Less accumulated depreciation for:				
Buildings	5,135,053	424,839	0	5,559,892
Machinery and equipment	2,227,982	137,564	75,150	2,290,396
Total accumulated depreciation	7,363,035	562,403	75,150	7,850,288
Total capital assets being depreciated, net	14,826,700	(267,721)	0	14,558,979
Governmental activities capital assets, net	\$ 14,954,437	65,854	14,469	15,005,822

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 21,456
Support services:	
Instructional staff	154
Administration	307
Operation and maintenance of plant	12,486
Transportation	103,161
	137,564
Unallocated depreciation	424,839
Total governmental activities depreciation expense	\$ 562,403
Business-type activities:	
Food services	\$ 23,929

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 4,330,000	0	650,000	3,680,000	680,000
Revenue bonds	5,010,000	0	550,000	4,460,000	570,000
Early retirement	1,075,122	88,244	345,383	817,983	266,249
Total	\$ 10,415,122	88,244	1,545,383	8,957,983	1,516,249

General Obligation Bonds Payable

Details of the District's June 30, 2008 general obligation bonded indebtedness is as follows:

Year Ending June 30,	Bond Issue of May 1, 2003				
	Interest Rates		Principal	Interest	Total
2009	4.10	% \$	680,000	156,550	836,550
2010	4.15		705,000	128,330	833,330
2011	4.20		730,000	98,720	828,720
2012	4.30		765,000	67,695	832,695
2013	4.35		800,000	34,800	834,800
Total			\$ 3,680,000	486,095	4,166,095

Revenue Bonds Payable

Details of the District's June 30, 2008 local option sales and services tax revenue bonded indebtedness is as follows:

Year Ending June 30,	Bond Issue of October 1, 2005				
	Interest Rates		Principal	Interest	Total
2009	3.50	% \$	570,000	149,181	719,181
2010	3.50-3.55		590,000	128,881	718,881
2011	3.55		615,000	107,639	722,639
2012	3.55		635,000	85,451	720,451
2013	3.55		660,000	62,465	722,465
2014	3.60		680,000	38,510	718,510
2015	3.70		710,000	13,135	723,135
Total			\$ 4,460,000	585,262	5,045,262

The District has pledged future local option sales and services tax revenues to repay the \$5,010,000 bonds issued in October 2005. The bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District and are payable through 2015. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds required 62.84% of the local option sales and services tax revenues. The total principal and interest remaining to be paid on the notes is \$5,045,262. For the current year, principal and interest paid on the bonds was \$718,093 and local option sales and services tax revenues were \$1,142,735.

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

- a) \$501,000 of the proceeds from the issuance of the revenue bonds shall be deposited to the Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the Sinking Account. The balance of the proceeds shall be deposited to the Project Account.

- b) All proceeds from the local option sales and services tax shall be placed in a Revenue Account.
- c) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

Early Retirement

The District offers a voluntary early retirement plan to its full-time employees. Eligible employees must be at least age fifty-five. Eligible employees must be an employee of the District for at least 10 years. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to 40-60% of their contracted annual salary (exclusive of supplemental pay or extended contract pay.) The percentage is determined by the number of consecutive years of service, and is paid out monthly over a three year period to a tax shelter annuity. Early retirement benefits paid during the year ended June 30, 2008, totaled \$345,383. A liability has been recorded in the government-wide financial statements representing the District's commitment to fund non-current early retirement.

(7) Advance Refunding

On February 1, 1999, the District issued refunding bonds in the amount of \$6,510,000 to advance refund \$5,800,000 of outstanding general obligation bonds. The proceeds of the refunding issued have been placed in an irrevocable escrow account and have been added to the appropriate financial statements and schedules. The District remains contingently liable in the remote possibility the account is insufficient to pay the refunded bonds. At June 30, 2008, \$3,990,000 of such bonds are outstanding. Repayment of principal and interest for the year was \$530,000 and \$299,480.

(8) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.90% of their annual covered salary and the District is required to contribute 6.05% of annual covered payroll for the years ended June 30, 2008, 2007 and 2006. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$619,611, \$550,069 and \$512,473 respectively, equal to the required contributions for each year.

(9) Risk Management

The District has a self-funded dental insurance plan. Total out of pocket expense per participant is \$1,000. Settle claims have not exceeded the commercial coverage in any of the past three years.

Payments are made to the plan based on actuarial estimates of amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses. That balance was \$87,537 at June 30, 2008.

Knoxville Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$663,042 for the year ended June 30, 2008 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(11) Construction Commitment

The District has entered into various contracts totaling \$592,961 for the High School EIFS Replacement, Ken Locke Stadium Restoration Project, Randy Wilson Track Concrete Project and East Elementary Roofing Project. As of June 30, 2008, costs of \$382,877 had been incurred against the contracts. The balance of \$210,084 remaining at June 30, 2008 will be paid as work on the project progresses and shown as a fund balance reserve for capital facility construction on the balance sheet.

REQUIRED SUPPLEMENTARY INFORMATION

KNOXVILLE COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2008

	Governmental	Proprietary		Budgeted Amounts		Final to
Fund Types	Fund Type	Total		Original	Final	Actual
Actual	Actual	Actual				Variance
Revenues:						
Local sources	\$ 7,540,883	419,413	7,960,296	8,373,506	8,373,506	(413,210)
Intermediate sources	22,141	0	22,141	0	0	22,141
State sources	10,996,970	9,562	11,006,532	11,139,854	11,139,854	(133,322)
Federal sources	499,102	357,337	856,439	853,000	853,000	3,439
Total revenues	19,059,096	786,312	19,845,408	20,366,360	20,366,360	(520,952)
Expenditures:						
Instruction	11,838,196	0	11,838,196	12,520,922	12,520,922	682,726
Support services	5,205,170	875	5,206,045	5,892,744	5,892,744	686,699
Non-instructional programs	0	763,942	763,942	940,000	940,000	176,058
Other expenditures	2,978,425	0	2,978,425	2,860,201	3,210,201	231,776
Total expenditures	20,021,791	764,817	20,786,608	22,213,867	22,563,867	1,777,259
Excess(deficiency) of revenues over(under) expenditures	(962,695)	21,495	(941,200)	(1,847,507)	(2,197,507)	1,256,307
Balance beginning of year	3,606,535	433,331	4,041,866	3,231,694	3,231,694	810,172
Balance end of year	\$ 2,645,840	454,826	3,100,666	1,384,187	1,034,187	2,066,479

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2008

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted a budget amendment increasing budgeted expenditures by \$350,000.

OTHER SUPPLEMENTARY INFORMATION

KNOXVILLE COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2008

	Nonmajor Special Revenue Funds					Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Capital Projects	Other Nonmajor Governmental Funds
ASSETS						
Cash and pooled investments	\$ 79,579	25,574	7,439	112,592	45,433	158,025
Receivables:						
Property tax:						
Current year delinquent	12,572	0	0	12,572	0	12,572
Succeeding year	500,000	0	32,417	532,417	0	532,417
Due from other governments	0	0	0	0	228,399	228,399
TOTAL ASSETS	\$ 592,151	25,574	39,856	657,581	273,832	931,413
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 0	0	0	0	1,151	1,151
Deferred revenue:						
Succeeding year property tax	500,000	0	32,417	532,417	0	532,417
	500,000	0	32,417	532,417	1,151	533,568
Fund balances:						
Reserved for:						
Capital facility construction	0	0	0	0	210,084	210,084
Unreserved:						
Undesignated	92,151	25,574	7,439	125,164	62,597	187,761
Total fund balances	92,151	25,574	7,439	125,164	272,681	397,845
TOTAL LIABILITIES AND FUND BALANCES	\$ 592,151	25,574	39,856	657,581	273,832	931,413

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2008

	Nonmajor Special Revenue Funds					Total
	Manage-	Student	Physical	Total		Other
	ment	Activity	Plant and	Special	Capital	Nonmajor
	Levy		Equipment	Revenue	Projects	Governmental
			Levy	Funds		Funds
REVENUES:						
Local sources:						
Local tax	\$ 476,259	0	0	476,259	1,142,735	1,618,994
Other	15,387	554,211	208	569,806	11,274	581,080
TOTAL REVENUES	491,646	554,211	208	1,046,065	1,154,009	2,200,074
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	341,986	0	0	341,986	0	341,986
Other instruction	0	539,978	0	539,978	0	539,978
Support services:						
Administration services	0	87	0	87	189	276
Student transportation	0	0	0	0	44,483	44,483
Other expenditures:						
Facilities acquisitions	0	0	16,289	16,289	747,802	764,091
TOTAL EXPENDITURES	341,986	540,065	16,289	898,340	792,474	1,690,814
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	149,660	14,146	(16,081)	147,725	361,535	509,260
OTHER FINANCING USES:						
Transfers out	0	0	0	0	(701,752)	(701,752)
TOTAL OTHER FINANCING USES	0	0	0	0	(701,752)	(701,752)
Net change in fund balances	149,660	14,146	(16,081)	147,725	(340,217)	(192,492)
FUND BALANCE BEGINNING OF YEAR	(57,509)	11,428	23,520	(22,561)	612,898	590,337
FUND BALANCE END OF YEAR	\$ 92,151	25,574	7,439	125,164	272,681	397,845

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2008

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
<u>Academic Clubs:</u>				
HS Band	\$ (203)	30	0	(173)
HS Camera Club	2,376	8,641	8,272	2,745
HS Drama Club	317	3,085	2,748	654
HS Science Club	4,614	19,534	16,386	7,762
HS Vocal	9,168	61,071	68,750	1,489
Middle Beta Club	483	0	0	483
MS Band	380	182	254	308
MS Vocal	24,495	0	24,495	0
Middle Student Advisory	16,645	4,552	4,972	16,225
	<u>58,275</u>	<u>97,095</u>	<u>125,877</u>	<u>29,493</u>
<u>Athletic Support:</u>				
Baseball Club	15,653	21,827	16,621	20,859
Drill Team	4,820	13,576	10,827	7,569
Girls Softball Club	6,387	8,585	5,556	9,416
HS Cheerleaders	347	2,365	2,747	(35)
MS Baseball Club	204	215	0	419
Panther Basketball	4,199	9,070	7,047	6,222
Panther Club	1,285	1,990	1,658	1,617
Panther Football Club	382	18,002	15,130	3,254
Panther Soccer	2,442	1,852	1,107	3,187
Pantherette Girls	2,405	11,981	11,474	2,912
Panther Girls Track Club	0	3,491	1,820	1,671
Pantherette Soccer	109	0	0	109
Pepsi Pop Fund	1,811	8,001	7,152	2,660
Volleyball Club	1,922	7,064	6,952	2,034
	<u>41,966</u>	<u>108,019</u>	<u>88,091</u>	<u>61,894</u>
<u>Boys Athletics:</u>				
Baseball	(60,127)	4,464	5,510	(61,173)
Boys Basketball	38,531	7,306	6,040	39,797
Boys Cross Country	(12,051)	340	2,682	(14,393)
Boys Golf	(11,037)	536	921	(11,422)
Boys Soccer	1,800	1,931	3,804	(73)
Boys Tennis	(6,681)	50	850	(7,481)
Boys Track	(13,311)	7,136	6,457	(12,632)
Football	57,767	22,309	13,477	66,599
Wrestling	(16,525)	2,911	3,779	(17,393)
	<u>(21,634)</u>	<u>46,983</u>	<u>43,520</u>	<u>(18,171)</u>
<u>Classes:</u>				
Freshman Class	35	25	0	60
Sophomore Class	26	9	0	35
Junior Class	1,139	16,133	13,534	3,738
Senior Class	279	861	794	346
	<u>1,479</u>	<u>17,028</u>	<u>14,328</u>	<u>4,179</u>

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2008

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
<u>East Elementary Activities:</u>				
East Book Fair	1,000	9,847	7,805	3,042
East Doughnut Resale	1,604	6,400	6,904	1,100
East Elem. Activity Tickets	0	510	510	0
	<u>2,604</u>	<u>16,757</u>	<u>15,219</u>	<u>4,142</u>
<u>General Athletics:</u>				
Cheerleading	(5,924)	0	540	(6,464)
Drill Team	(9,856)	(14)	0	(9,870)
HS General Athletics	(105,512)	17,990	10,743	(98,265)
State Tournament	0	2,410	1,033	1,377
	<u>(121,292)</u>	<u>20,386</u>	<u>12,316</u>	<u>(113,222)</u>
<u>Girls Athletics:</u>				
Girls Basketball	22,913	5,528	5,649	22,792
Girls Cross Country	(8,862)	650	921	(9,133)
Girls Golf	(8,498)	300	724	(8,922)
Girls Soccer	(9,342)	1,553	1,240	(9,029)
Girls Tennis	(4,068)	120	943	(4,891)
Girls Track	(23,876)	916	368	(23,328)
Softball	(30,078)	5,938	8,312	(32,452)
Volleyball	(7,902)	3,845	4,903	(8,960)
	<u>(69,713)</u>	<u>18,850</u>	<u>23,060</u>	<u>(73,923)</u>
<u>Middle School Boys Athletics:</u>				
MS Baseball	(17,203)	0	960	(18,163)
MS Boys Basketball	8,223	1,333	1,567	7,989
MS Boys Track	(4,508)	150	624	(4,982)
MS Cross Country	(20)	0	0	(20)
MS Football	(16,232)	2,084	3,600	(17,748)
MS Wrestling	(1,592)	706	1,847	(2,733)
	<u>(31,332)</u>	<u>4,273</u>	<u>8,598</u>	<u>(35,657)</u>
<u>Middle School General Athletics:</u>				
MS General Athletics	(5,058)	3,802	641	(1,897)
<u>Middle School Girls Athletics:</u>				
MS Girls Basketball	1,645	1,471	1,609	1,507
MS Girls Track	(934)	1,667	337	396
MS Softball	(10,816)	0	599	(11,415)
MS Volleyball	3,486	1,552	1,540	3,498
	<u>(6,619)</u>	<u>4,690</u>	<u>4,085</u>	<u>(6,014)</u>

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2008

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
<u>Northstar Elementary Activities:</u>				
Northstar Activity Tickets	0	840	840	0
Northstar Birthday Book	78	0	0	78
Northstar Book Fair	3,748	7,209	10,069	888
Northstar Resale	14,353	4,937	5,828	13,462
Northstar Student Council	819	1,000	549	1,270
Northstar Student Teachers	1,898	695	474	2,119
	20,896	14,681	17,760	17,817
<u>Other Activities:</u>				
6th Grade Resale	557	0	231	326
7th Grade Resale	3,948	3,130	4,030	3,048
8th Grade Resale	1,515	0	0	1,515
Activity Interest	1,500	1,534	56	2,978
Student Council CD	2,500	0	0	2,500
Auditorium Project	5,404	7	0	5,411
Collins Fund	7,790	3,394	961	10,223
FCCLA CD	1,338	51	0	1,389
Goal Activity	3,735	2,085	370	5,450
HS Activity Tickets	(20)	9,710	9,650	40
HS Book Fair	72	1,045	1,018	99
HS Resale	1,084	4,607	5,191	500
HS Student Teacher	2,314	1,121	1,690	1,745
HS Athletic Savings	1,039	0	1,039	0
HS Pepsi Pop Fund	19,970	56,318	56,315	19,973
International Club	1,100	0	19	1,081
ISJIT	1,998	183	0	2,181
K-Fund Yearbook	12,189	19,205	25,079	6,315
Middle Activity Tickets	320	4,230	4,310	240
Middle Annual/Yearbook	1,048	6,348	5,836	1,560
Middle Music Resale	10	573	583	0
Middle Resale	1,962	2,691	480	4,173
Middle Student Teachers	117	516	487	146
Middle Book Fair	3,340	4,665	5,231	2,774
Panther Club Scholarship	11,338	431	0	11,769
School Nurse	455	0	0	455
Spanish Club	333	0	0	333
Student Senate	111	3,402	3,098	415
Student Senate Scholarship	1,747	58	0	1,805
Team Nutrition Club	468	991	1,214	245
	89,282	126,295	126,888	88,689

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2008

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
<u>Vocational Clubs:</u>				
Construction Trades	37,716	0	0	37,716
Farm Account	790	0	0	790
FCCLA Account	2,143	4,780	3,421	3,502
FFA Account	4,878	45,203	43,173	6,908
Industrial Arts	698	0	0	698
	<u>46,225</u>	<u>49,983</u>	<u>46,594</u>	<u>49,614</u>
<u>West Elementary Activities:</u>				
West Activity Tickets	0	620	620	0
West Book Fair	1,496	7,176	7,078	1,594
West Resale	2,602	277	0	2,879
West Student Teacher	1,324	50	0	1,374
West Student Council	927	17,246	5,390	12,783
	<u>6,349</u>	<u>25,369</u>	<u>13,088</u>	<u>18,630</u>
Total	<u>\$ 11,428</u>	<u>554,211</u>	<u>540,065</u>	<u>25,574</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 FIDUCIARY FUND - PRIVATE PURPOSE TRUSTS
 JUNE 30, 2008

Private Purpose Trust - Scholarship Fund					
	Locke Memorial	Tunie Memorial	Cox Scholarship	Norton Scholarship	Total
ASSETS:					
Cash and pooled investments	\$ 277	583	1,455	105	2,420
LIABILITIES					
	0	0	0	0	0
NET ASSETS:					
Reserved for scholarships	\$ 277	583	1,455	105	2,420

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF CHANGES IN NET ASSETS
 FIDUCIARY FUND - PRIVATE PURPOSE TRUST FUNDS
 YEAR ENDED JUNE 30, 2008

	Private Purpose Trust - Scholarship Fund				
	Locke Memorial	Tunie Memorial	Cox Scholarship	Norton Scholarship	Total
ADDITIONS:					
Local sources:					
Interest income	\$ 1	1	551	0	553
TOTAL ADDITIONS	1	1	551	0	553
DEDUCTIONS:					
Non-instructional programs:					
Scholarships awarded	103	0	0	0	103
TOTAL DEDUCTIONS	103	0	0	0	103
Change in net assets	(102)	1	551	0	450
NET ASSETS BEGINNING OF YEAR	379	582	904	105	1,970
NET ASSETS END OF YEAR	\$ 277	583	1,455	105	2,420

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
 AGENCY FUND
 YEAR ENDED JUNE 30, 2008

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
<u>MARION COUNTY EMPOWERMENT</u>				
ASSETS				
Cash and pooled investments	\$ 208,081	454,450	470,381	192,150
LIABILITIES				
Due to other groups	\$ 208,081	454,450	470,381	192,150
<u>KCSD EMPLOYEE FLEX SPENDING</u>				
Cash and pooled investments	\$ 10,100	72,371	64,591	17,880
LIABILITIES				
Accounts payable	\$ 3,092	63,499	48,711	17,880
Due to other groups	7,008	0	7,008	0
	\$ 10,100	63,499	55,719	17,880
<u>TOTALS - ALL AGENCY FUNDS</u>				
ASSETS				
Cash and pooled investments	\$ 218,181	526,821	534,972	210,030
LIABILITIES				
Accounts payable	\$ 3,092	63,499	48,711	17,880
Due to other groups	215,089	454,450	477,389	192,150
	\$ 218,181	517,949	526,100	210,030

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2008

Governmental Activities:			
Internal Service Funds			
	Self-funded	Self-funded	
	Health	Dental	
	Insurance	Insurance	Total
ASSETS:			
Cash and pooled investments	\$ 15,959	87,537	103,496
Receivables:			
Accounts	463	0	463
TOTAL ASSETS	16,422	87,537	103,959
LIABILITIES:			
Accounts payable	36,744	0	36,744
TOTAL LIABILITIES	36,744	0	36,744
NET ASSETS	\$ (20,322)	87,537	67,215

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
INTERNAL SERVICE FUND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2008

	Governmental Activities:		
	Internal Service Funds		
	Self-funded Health Insurance	Self-funded Dental Insurance	Total
OPERATING REVENUES:			
Local sources:			
Employee contributions	\$ 2,104,044	175,674	2,279,718
TOTAL OPERATING REVENUE	2,104,044	175,674	2,279,718
OPERATING EXPENSES:			
Support services:			
Administration services:			
Benefits	2,238,522	140,071	2,378,593
TOTAL OPERATING EXPENSES	2,238,522	140,071	2,378,593
CHANGE IN NET ASSETS	(134,478)	35,603	(98,875)
NET ASSETS BEGINNING OF YEAR	114,156	51,934	166,090
NET ASSETS END OF YEAR	\$ (20,322)	87,537	67,215

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
INTERNAL SERVICE FUND
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2008

	Governmental Activities:		
	Internal Service Funds		
	Self-funded	Self-funded	
	Health	Dental	
	Insurance	Insurance	Total
Cash flows from operating activities:			
Cash received from miscellaneous	\$ 2,103,581	175,674	2,279,255
Cash payments to employees for services	(2,229,014)	(140,071)	(2,369,085)
Net cash provided by(used in) operating activities	(125,433)	35,603	(89,830)
Net increase(decrease) in cash and cash equivalents	(125,433)	35,603	(89,830)
Cash and cash equivalents at beginning of year	141,392	51,934	193,326
Cash and cash equivalents at end of year	\$ 15,959	87,537	103,496
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:			
Operating income(loss)	\$ (134,478)	35,603	(98,875)
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:			
Increase in accounts receivable	(463)	0	(463)
Increase in accounts payable	9,508	0	9,508
Net cash provided by(used in) operating activities	\$ (125,433)	35,603	(89,830)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:			
Current assets:			
Cash and pooled investments	\$ 15,959	87,537	103,496

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FIVE YEARS

	Modified Accrual Basis				
	Years Ended June 30,				
	2008	2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax	\$ 6,370,480	6,373,520	6,436,297	6,271,019	5,406,638
Tuition	352,774	444,933	435,713	412,584	384,825
Other	817,629	951,118	900,892	755,925	684,887
Intermediate sources	22,141	0	0	0	300
State sources	10,996,970	10,383,090	9,666,649	9,266,712	8,566,918
Federal sources	499,102	483,871	515,121	526,675	525,896
Total	\$ 19,059,096	18,636,532	17,954,672	17,232,915	15,569,464
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$ 7,274,840	6,805,524	6,232,711	5,859,910	5,618,174
Special instruction	2,282,564	2,192,323	2,059,686	2,310,021	2,000,372
Other instruction	2,280,792	2,223,187	2,192,156	1,314,612	1,201,591
Support services:					
Student services	433,321	429,610	429,577	688,674	679,614
Instructional staff services	415,359	396,764	389,630	821,959	673,089
Administration services	2,130,779	1,928,616	1,859,177	1,683,840	1,529,732
Operation and maintenance of plant services	1,581,508	1,551,750	1,514,703	1,375,891	1,395,117
Transportation services	644,203	612,541	537,821	541,570	427,597
Other support services	0	0	0	1,750	73,529
Non-instructional programs					
Food service	0	0	0	0	3,500
Community service and education operations	0	0	0	9,976	3,884
Other enterprise operations	0	0	100	0	0
Other expenditures:					
Facilities acquisitions	764,091	2,086,702	3,903,561	844,960	496,057
Long-term debt:					
Principal	1,200,000	625,000	600,000	565,000	540,000
Interest	351,292	429,800	270,500	261,765	291,003
AEA flow-through	663,042	632,385	588,615	566,235	546,076
Total	\$ 20,021,791	19,914,202	20,578,237	16,846,163	15,479,335

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 08	\$ 54,479
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 08	298,858 *
			<u>353,337</u>
TEAM NUTRITION GRANT	10.574	FY 08	<u>4,000</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	3375-G	<u>213,559</u>
INNOVATIVE EDUCATION PROGRAM STRATEGIES(TITLE V PROGRAM)	84.298	FY 08	<u>3,291</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 08	<u>8,155</u>
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 08	<u>73,491</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 07	7,206
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 08	<u>14,070</u>
			<u>21,276</u>
AREA EDUCATION AGENCY:			
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 08	<u>20,078</u>
SPECIAL EDUCATION - GRANTS TO STATES(PART B)	84.027	FY 08	<u>105,546</u>
DEPARTMENT OF DEFENSE:			
FLOOD CONTROL PROJECTS	12.106	FY 08	<u>16,618</u>
TOTAL			<u>\$ 819,351</u>

*Includes \$48,016 of non-cash awards.

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Knoxville Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of the
Knoxville Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Knoxville Community School District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 27, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Knoxville Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Knoxville Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Knoxville Community School District's internal control over financial reporting.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Knoxville Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Knoxville Community School District's financial statements that is more than inconsequential will not be prevented or detected by Knoxville Community School District's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Knoxville Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Knoxville Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on test and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Knoxville Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Knoxville Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Knoxville Community School District and other parties to whom Knoxville Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Knoxville Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

February 27, 2009

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3050
Telephone (641) 792-1910

Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Board of Education of
Knoxville Community School District

Compliance

We have audited the compliance of Knoxville Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. Knoxville Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Knoxville Community School District's management. Our responsibility is to express an opinion on Knoxville Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Knoxville Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Knoxville Community School District's compliance with those requirements.

In our opinion, Knoxville Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Knoxville Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Knoxville Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Knoxville Community School District's internal control over compliance.

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined above. We did not identify any deficiencies in internal control over compliance that we consider to be a material weaknesses, as defined above.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Knoxville Community School District and other parties to whom Knoxville Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.


NOLTE, CORNMAN & JOHNSON, P.C.

February 27, 2009

KNOXVILLE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

Part I: Summary of the Independent Auditor's Report

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, none of which are considered a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program were as follows:
 - Clustered
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Knoxville Community School District did qualify as a low-risk auditee.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

II-A-08 Student Activity Fund - During our audit issues arose about the properness of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended from.

The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear that some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended. These accounts are Pop Fund, Book Fair, Donut Resale, Student Teacher, School Nurse, Team Nutrition and Industrial Arts. These accounts appear to not be student run organization accounts and should be closed and transferred to the General Fund. In addition, there are inactive accounts that need to be reviewed and closed if not being used.

There are ISJIT and CD accounts. These accounts should be allocated among the Student Activity Funds that earned the interest and principal CD balances. The interest allocation should be done at least annually. Interest earned should be distributed to individual accounts within the Student Activity Fund.

Donations from Target were recorded in the Student Activity Fund. These donations do not specify the purpose; therefore should be receipted into the General Fund for use as determined by the District's Board of Directors.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281-12.6(1). The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear that some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended.

Response - The District is constantly reviewing expenditures from the Student Activity Fund to ensure compliance with the Department of Education administrative rules and Iowa Code.

Conclusion - Response accepted.

- II-B-08 Exclusive Vendor Contract - We noted during the audit that within the Student Activity Fund there was revenue received from an exclusive vendor contract with Pepsi-Cola.

Recommendation - According to guidance provided by the Iowa Department of Education, the Auditor of State and the Attorney Generals Opinion dated February 15, 2000, the exclusive vendor contract is allowable, but the revenue from the exclusive vendor contract must be recorded only in the District's General Fund. Under Dillon's Rule, there is no statutory requirement or authority to record the revenue in another fund other than the General Fund.

Once exclusive vendor contract revenues are recorded in the General Fund, they can be subsequently spent for purposes including athletics or other extracurricular activities to the extent the expenditure would be allowable and appropriate from the General Fund.

Response - The District will ensure that all funds received from exclusive vendor contracts will be receipted into the General Fund.

Conclusion - Response accepted.

- II-C-08 Board Policies - We noted during our audit the District's board policy book appears to have not been kept up to date. All board policies should be reviewed every five years and documented when approved and reviewed.

Recommendation - The District should review the board policy book and update all policies that have not been updated within the past five years. The District should take steps to review board policies in a more timely manner.

Response - The District will make sure that our Board policy book has been updated and that all of our Board policies are reviewed every five years.

Conclusion - Response accepted.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

No material weaknesses in internal control over the major programs were noted.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-08 Certified Budget - District disbursements for the year ended June 30, 2008, did not exceed the amount budgeted.
- IV-B-08 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- IV-C-08 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- IV-D-08 Business Transactions - Business transactions between the District and District officials are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Kyle Kincaid, Teacher	Floor repairs	\$3,090

In accordance with the Attorney General's opinion dated July 2, 1990, the above transactions with the District's teacher does not appear to represent a conflict of interest.

- IV-E-08 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-F-08 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- IV-G-08 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of students which were resident students on Line 1 was understated by 2 students. The number of students which were tuitioned out on Line 3 was overstated by 2 students. The number of students which were tuitioned in on Line 9 was overstated by 3 students.
- Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.
- Response - The District has taken the proper steps to ensure that corrections have been made to our certified enrollment.
- Conclusion - Response accepted.
- IV-H-08 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- IV-I-08 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

IV-J-08 Financial Condition - The District had several accounts in the Special Revenue, Student Activity Fund that had deficit balances at the end of the year.

Recommendation - The District should continue to monitor this fund and investigate alternatives to eliminate the deficit. The District should consider additional approval of bills from the Student Activity Fund. A workout plan for the deficit accounts should also be considered for the Student Activity Fund.

Response - The District has begun a workout plan consisting of transferring \$25,000, annually from the General Fund to the Student Activity Fund for the next ten fiscal years.

Conclusion - Response acknowledged. Any transfer from the General Fund to the Student Activity Fund should be at an invoice level. The invoices which could have been paid from the General Fund, but were paid from the Student Activity Fund should be accumulated to use as the support for the transfer. In addition, the District should require a budget and workout plan for the accounts with negative balances.